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December 16, 2014

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**AUTHORIZATION TO EXECUTE A SHARED SERVICES AGREEMENT FOR
MARTIN LUTHER KING, JR. COMMUNITY HOSPITAL AND MARTIN
LUTHER KING, JR. OUTPATIENT CENTER
(SUPERVISORIAL DISTRICT 2)
(3 VOTES)**

SUBJECT

Request for authority to be delegated to the Director of Health Services, or his designee, to execute an Agreement with Martin Luther King, Jr.-Los Angeles Healthcare Corporation, to allow Martin Luther King, Jr. Community Hospital and Martin Luther King, Jr. Outpatient Center to perform on-going and intermittent services for one another.

IT IS RECOMMENDED THAT THE BOARD:

1. Delegate authority to the Director of Health Services (Director), or his designee, to negotiate and execute a Shared Services Agreement with Martin Luther King, Jr.-Los Angeles Healthcare Corporation (MLK-LA Healthcare), effective upon execution by both parties, which shall continue in full force and effect until terminated by either party, as described below:

(a) The Shared Services Agreement may provide for the Department of Health Services' (DHS) Martin Luther King, Jr. Outpatient Center (MLKOC) to supply to MLK-LA Healthcare's Martin Luther King, Jr. Community Hospital (MLKCH) any clinical or support service that is offered or rendered by DHS for a fee which is at least equal to the lower of (i) fair market value, or (ii) MLKOC's marginal cost for providing the service.

ADOPTED

BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

18 December 16, 2014


PATRICK O'QUINN
ACTING EXECUTIVE OFFICER

(b) The Shared Services Agreement may also provide for MLKCH to supply to MLKOC any clinical or support service for a fee that is not more than the lower of (i) fair market value or (ii) MLKCH's cost of providing the service.

2. Delegate authority to the Director, or his designee, to execute Amendments to the Agreement, to: (a) add, delete and/or change non-substantive terms and conditions in the Agreement; (b) delete service types or reduce the scope of services; (c) add service types or increase the scope of services to cover services which are, at the time of the amendment, provided by DHS in other settings so long as the fees are set consistently with the parameters set forth in Recommendation 1; and/or (d) revise the amount of any fee, so long as the revised fees are consistent with the parameters set forth in Recommendation 1, subject to review and approval by County Counsel and [for (b), (c) and (d)] Chief Executive Office (CEO), with advance notice to the Board.

3. Approve an interim ordinance authority for DHS pursuant to County Code Section 6.06.020 for 4 budgeted positions as indicated on the attached Request for Interim Authority Provisional Allocations to the department Fiscal Year (FY) 2014-15 (Attachment I), and authorize said department to fill these positions subject to allocation by the CEO's Compensation and Classification Division.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Approval of the first recommendation will authorize the Director, or his designee, to execute an Agreement with MLK-LA Healthcare that will allow the MLKCH and MLKOC to share services where doing so assists the parties in efficiently and effectively meeting the medical needs of Los Angeles County residents who require ancillary, diagnostic and/or treatment services at the new Martin Luther King, Jr. (MLK) Medical Campus. The Shared Services Agreement will establish general terms and conditions in the main body of the agreement, and use separate addendum to describe each type of service, the payment rates, and the periods during which the services will be provided, among other operational information. DHS will provide the Board with a copy of the Shared Services Agreement and any initial addendum after it is executed.

Approval of the second recommendation will authorize the Director to modify that Agreement, by changing non-substantive terms or by substantively altering the services provided or the amounts paid for such services to meet the parties changing needs. Copies of such amendments will be provided to the Board prior to their execution by the parties.

Approval of the third recommendation will allow DHS to hire additional laboratory staff necessary to provide services to MLKCH during the current fiscal year. If DHS needs to hire any supplemental staff to provide other types of services or a higher level of laboratory services to MLKCH, it will return to the Board, either through a distinct request or through the budget process, for authority to do such hiring.

Background

In August 2007, DHS stopped providing general acute and emergency service on the MLK Medical Campus due to the termination of its Medicare provider agreement, although ambulatory care services continued to be provided through the County operated MLKOC (formerly known as the MLK Multi-Service Ambulatory Care Center). In an effort to restore inpatient services and emergency care

to the underserved population in the area, the Regents of the University of California (UC) and the County developed a plan under which a new non-profit corporation would be created to operate a hospital on the MLK Medical Campus. On July 13, 2010, the Board approved the Coordination Agreement which defines the commitments of the County and the UC regarding their respective roles in the creation of the new non-profit corporation and the opening of the new community hospital.

On August 10, 2010, the Board approved the appointment of the MLK-LA Healthcare Board of Directors to manage the new hospital. Since its inception, the seven-member Board has actively engaged in the planning to establish and operate a general acute care community hospital on the MLK-Medical Campus. On April 22, 2014, the Board authorized the CEO to execute a Lease Agreement with MLK-LA Healthcare, giving it access to a new inpatient hospital structure on the MLK Medical Campus. At full operation, the hospital will have 131 licensed beds and its emergency department will be capable of providing an estimated 30,000 annual patient visits. In acknowledgment of the financial difficulties associated with opening and operating a new hospital in a low income community, the Lease included a negotiated financial support package for the new hospital, which included long and short term loans, and grants. In addition, the Board authorized the Director to execute a companion Indigent Care, Emergency Care and Intensive Care Agreement with MLK-LA Healthcare, under which MLKCH would provide a full range of hospital services to County indigents.

Shared Services Agreement

The concept of shared services began to take shape at the time the Coordination Agreement was adopted in 2010 and, the Lease Agreement executed earlier this year acknowledges that several of the services needed for the operation of the hospital are also provided to other providers at the MLK Campus. Therefore, the parties believe that they may be able to reduce costs and obtain operational efficiency by sharing such services. One example of that is the pneumatic tube system. The Lease Agreement provides that MLK-LA Healthcare shall be responsible for ensuring the proper and professional maintenance of the blower equipment for the pneumatic tube system located in the hospital, which also feeds pneumatic tube systems located in buildings on the Campus but outside the hospital premises. DHS and MLK-LA Healthcare have identified additional services that each facility could provide to the other. The services MLKCH may provide to MLKOC include: MRI, and Central Sterile. MLKOC will provide laboratory services to MLKCH and may provide nuclear medicine services. While the parties contemplate that such shared services will generally be provided directly by the other party, some components may be rendered by subcontractors. For services provided by MLKOC, such subcontractors will only be used if DHS also subcontracts out that service for MLKOC or in other settings.

One of the key services needed to open MLKCH is laboratory. Therefore, the first type of service to be included in the Shared Services Agreement will be for MLKOC to provide laboratory services to MLKCH. Among the lab services, MLKOC will provide as-needed analyses of blood, body fluids and other suitable specimens from humans for the purpose of assisting MLKCH providers in determining the appropriate diagnosis and treatment of hospital patients. MLKOC will be responsible for routine clinical pathology tests and the professional component of anatomical pathology, analysis and the reporting of test results directly to the MLKCH Laboratory. MLKCH will generally be responsible for its own "stat" (i.e. immediately necessary) laboratory testing. To provide laboratory services to MLKCH on a 24-hour per day basis, as well as to handle the increased volume, MLKOC will need to hire some additional laboratory personnel.

Implementation of Strategic Plan Goals

The recommended action(s) support(s) Goal 2, Community Support and Responsiveness, of the County's Strategic Plan.

FISCAL IMPACT/FINANCING

There should be no net fiscal impact to the County for providing services under the Shared Services Agreement, as costs should be offset through reimbursement by MLKCH. The rates to be set for services provided by MLKOC must be at least MLKOC's marginal cost of providing the service. DHS will, however, in appropriate circumstances attempt to obtain rates which exceed marginal costs and include more overhead and fixed costs. However, in the unlikely event that the fair market value of the service is less than marginal cost, MLKOC may charge fair market value, which may result in an unreimbursed cost to the County.

For services that MLKOC may receive, it will pay no more than the cost of providing the care, or fair market value of the services, whichever is lower. These fees are likely to be similar to the cost of obtaining the services through other means.

The estimated marginal cost to provide laboratory services to MLKCH, as well as the cost of some related administrative expenses in FY 2014-15 is \$0.3 million. MLKOC will provide the services within its existing FY 2014-15 appropriation budget.

The estimated marginal cost to provide laboratory services to MLKCH, as well as the cost of some related administrative expenses in FY 2015-16 is \$2.4 million. DHS will request the necessary positions and appropriation in the FY 2015-16 Recommended Budget to provide laboratory services. Future fiscal years' budgets will be adjusted as necessary.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Where appropriate, the Shared Services Agreement will contain similar provisions to those in the Lease Agreement and Indigent Care, Emergency Care and Intensive Care Agreement. Like the others, the Shared Services Agreement will include mutual indemnification, which means that the County may have liability to MLK-LA Healthcare, as well as liability to MLKCH's patients, in connection with the services that MLKOC provides. The Shared Services Agreement will also make mutual certain other types of obligations, such as the need to maintain insurance coverage, comply with state and federal confidentiality laws, and the requirement not to discriminate in the provision of services. Due to the innovative nature of the partnership between MLK-LA Healthcare and the County, the Agreement will likely not include most standard County provisions, but will retain provisions mandated by ordinance.

In determining the amount that MLKCH will pay for services, DHS will take into account the fact that MLKCH's revenue may not cover all of its expenses, particularly in the next few years when it is still establishing itself. To assure that MLKCH continues to be viable and able to make quality inpatient services available to County responsible patients, DHS may agree to accept for services it provides rates which are less than fair market value, so long as they cover the marginal cost of providing the services. Fair market value for the services is the value ordinarily paid for similar services by a similar organization under similar circumstances. For purposes of the delegations in this Board

letter, marginal costs are variable costs consisting of the additional personnel, equipment and material costs above existing expense levels incurred as a result of providing services under the Shared Services Agreement, as well as the cost of some of the related administrative or fixed expenses. DHS intends to review each service addendum every three to five years to evaluate whether any changes, including the possibility of adjusting, or deleting services or increasing payment rates, are appropriate. Such rate increases might include payment for additional administrative overhead or other fixed expenses, up to full costs. For purposes of services provided through a subcontractor, marginal costs would be the amount charged by the subcontractor. However, neither party will consider the volume or value of the referrals between them of services to be billed to a federal or state health care program in establishing the rates which are paid for shared services.

County Counsel will review and approve the Shared Services Agreement as to form prior to its execution, or the execution of any amendments. As noted above, amendments will also be provided to the Board prior to their execution.

CONTRACTING PROCESS

The County and MLK-Healthcare have a unique relationship, and MLKCH and MLKOC are physically situated to perform complementary functions for one another. As a result, the County's customary contracting processes do not apply to the Shared Services Agreement.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Approval of the recommendations will ensure residents of South Los Angeles County can receive essential inpatient and outpatient services at the MLK Medical Campus.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mitchell Katz".

Mitchell H. Katz, M.D.

Director

MHK:jca

Enclosures

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors

**COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
REQUEST FOR INTERIM ORDINANCE AUTHORITY
PROVISIONAL ALLOCATIONS TO DEPARTMENT
FISCAL YEAR 2014-15**

<u>Item No.</u>	<u>Classification</u>	<u>ORDINANCE POSTION</u>	<u>BUDGET POSITION</u>
4895	Clinical Lab Scientist I	3.0	3.0
4976	Lab Assistant	1.0	1.0
TOTAL POSITIONS REQUESTED		4.0	4.0